

# MJB ASSET MANAGEMENT LLC

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RICHARD BREGMAN, CFA, *Chief Executive Officer*

October 31, 2003

Dear Clients and Friends:

As of this writing, the economy is recovering. Third quarter GNP was up more than 7% as capital spending, disposable income and consumer confidence all increased during the quarter.<sup>1</sup> The stock market was up, too, as the Dow Jones Industrial Average gained 3.8%, the S&P 500 Index gained 2.7% and the NASDAQ index of smaller stocks gained 10.1% for the three month period ended September 30<sup>th</sup>. The overall economic picture, however, remains somewhat mixed. Unemployment remains high, as the recovery has not yet created new jobs. Employers are reporting an increase in overtime pay,<sup>2</sup> which could be a harbinger of new jobs, yet layoffs continue.<sup>3</sup> Corporate earnings are up, but primarily in comparison to last year's recession-driven lows. In short, the tone is much more positive than it has been in recent months, but we are still in a wait and see economic environment. The stock market, too, after its recent run-up, appears to be at a wait and see level. In light of the economic improvement, we are maintaining our exposure to the market. However, we are remaining cautious, and will wait until we see evidence of sustained economic growth -- including job growth -- before substantially increasing our allocation to stocks.

For clients with individual stocks, we trimmed our positions in Intel, Texas Instruments and IBM, all of which enjoyed significant price appreciation this past quarter. Twenty years ago, the entire world needed to purchase PC's. The firms that made them were growth companies with seemingly endless demand for their products. Five years ago, the same held true for mobile phones. Today, personal computers and, to a slightly lesser extent, mobile phones, are widely owned commodity products with few new markets to tap. Replacement cycles -- which tend to reflect macro-economic cycles -- now drive sales. As economic conditions improve and consumers gradually replace their aging equipment, the prospects for many technology companies have improved. However, these are now cyclical improvements for cyclical firms. The markets are currently pricing them as if they have returned to the glory growth days of the 1990's. We believe otherwise and took the opportunity to reduce our positions.

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<sup>1</sup> CSFB research piece, "*U.S. Equity High Noon*," October 28, 2003.

<sup>2</sup> Doug Lee, Chief Economist, Pioneer Investments, speech delivered in Boston, Massachusetts, October 24, 2003.

<sup>3</sup> Pharmaceutical giant Merck & Co. just announced 4,400 layoffs. Sony Corporation, headquartered in Japan, but with worldwide operations and a significant presence in the United States, just announced 22,000 layoffs.

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When purchasing new stocks we look for high quality companies with opportunities to grow that are selling for prices at least 40% below their highs. Automatic Data Processing (ADP) is the largest payroll processor in the world. ADP's core payroll processing business is highly dependent on employment. Lingering high unemployment led investors to push the price of ADP stock down more than 40% below its highs, providing us with an opportunity to purchase at an attractive price. ADP is a well-managed company that currently generates substantial free cash flow, even without job growth. Should the economy begin adding jobs, ADP should be able to significantly grow its free cash flow and earnings, which should lead investors to bid up its price.

For clients with equity mutual funds, we continued to favor "value" strategies that preserve principal over more volatile "growth" strategies. We also are observing a material increase in the amount of merger and acquisition activity in the public markets. For this reason, we have continued to add to our positions in the Merger Fund and the Gabelli ABC fund, both of which pursue opportunities in the world of publicly announced merger activity.

For clients with bonds and/or bond funds, we moved into shorter-term bonds and funds to protect principal as intermediate and longer term interest rates rose over the summer. The Federal Reserve has kept short term interest rates at their lowest levels in forty years, which has kept the price of short term bonds high. This has created a slight discrepancy between the prices of short term bonds (which are very high) and intermediate/longer term bonds (which are not as high). As such, we are beginning to move our bond portfolios toward moderate duration bonds that mature in three to five years. The prices of these bonds have already declined a bit and are less at risk to further price declines should rates continue to rise. In addition, they offer higher interest payments than shorter-term bonds.

At MJB Asset Management, our mission is to connect with each of our clients and provide high quality investment advice that lets them feel safe and confident that we are meeting their investment goals. One of the ways in which we do this by investing side by side with all of our clients in the same stocks and funds. This is an important show of confidence in the quality of our investment process. But just as importantly, "eating our own cooking" enables us to stand in the same shoes as our clients. It helps us to stay focused in the present, to stay focused on risk and return and above all, to stay focused on delivering investment results that meet each of our clients' goals.

Thank you for investing with MJB Asset Management. We look forward to discussing your portfolios and investment goals.

Sincerely,

Richard Bregman